

Message Text

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FM AMEMBASSY MOSCOW

TO AMEMBASSY CONAKRY

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C O N F I D E N T I A L MOSCOW 8444

USDOC FOR BEWT/TDAD/PLANAGAN

E.O. 11652: GDS

TAG: EEWT, UR

SUBJ: POSSIBLE KAISER PARTICIPATION IN SOVIET ALUMINUM PROJECT

REF: MOSCOW 5783

1. SUMMARY - KAISER TEAM HEADED BY EDGAR F. KAISER CONCLUDED FOUR DAYS OF DISCUSSIONS WITH SOVIET OFFICIALS JUNE 17 ON POSSIBLE PARTICIPATION IN NIKOLAYEV-KRASNOYARSK ALUMINUM PROJECT. KAISER FELT PROGRESS HAD BEEN MADE TOWARD DEVELOPING ACCEPTABLE BASIS FOR PARTICIPATION. PARA 6 REQUESTS COMMENTS AND INFORMATION FROM CONAKRY, PARIS, AND EC BRUSSELS. END SUMMARY.

2. AS REPORTED REPORTED REFTEL, FOCUS OF KAISER-SOVIET NEGOTIATIONS IS NOW NIKOLAYEV-KRASNOYARSK PROJECT (FORMERLY CALLED "PECHINEY PROJECT"), WHICH WOULD CONVERT GUINEAN BAUXITE TO ALUMINA AT NIKOLAYEV ON BLACK SEA, REDUCE ALUMINA TO ALUMINUM AT SMELTER NEAR KRASNOYARSK, AND PROCESS INGOTS AT ROLLING MILL NEAR SMELTER. ALUMINA PLANT WOULD HAVE ONE MILLION TON CAPACITY, WHILE SMELTER COULD HANDLE 5000,000 TONS PER ANNUM. KAISER INTEREST INCLUDES SMELTER AND ROLLING MILL AND MAY ALSO EXTEND TO ALUMINA PLANT IF GUINEAN ORE PROVES
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SUSCEPTIBLE TO COMPANY'S PROCESSING TECHNOLOGY. PROJECT HAS HIGH

PRIORITY IN NEXT FIVE YEAR PLAN WITH CONSTRUCTION AT NIKOLAYEV AND KRASNOYARSK SITES REPORTEDLY SCHEDULED TO START AT BEGINNING OF 1976, WITH OR WITHOUT FOREIGN PARTICIPATION.

3. UNDER COMPANY PROPOSAL KAISER WOULD SELL PLANTS TO SOVIETS AT COST PLUS SIX PERCENT TO COVER HOKNOW-HOW. COMPANY WOULD BE PAID IN PRODUCT PRICED BELOW WORLD LEVELS TO PROVIDE KAISER'S PROFIT MARGIN ON PROJECT. SOVIETS HAVE NOT YET REACTED TO COMPANY'S COST-PLUS-SIX-PERCENT FORMULA BUT PREVIOUSLY REJECTED DISCOUNT PRICING, PROPOSING INSTEAD THAT KAISER TAKE ITS PROFIT FROM COMMISSIONS PAID BY EQUIPMENT MANUFACTURERS.

4. DURING THE VISIT KAISER TEAM MET WITH V.N. SUSHKOV, DEPUTY MINISTER OF FOREIGN TRADE; I.A. RUSSOV, CHAIRMAN OF RAZNOIMPORT, WHICH HANDLES ALUMINUM EXPORTS; AND DEPUTY MINISTER V.N. KOSTIN AND FNU KOLCHENKO, CHIEF OF GLAVALYUMINIY, MINISTRY OF NON-FERROK METALLURGY. SUSHKOV APPEARED UNPREPARED FOR MEETING AND CONFESSED AT ONE POINT HE HAD NOT READ A POSITION PAPER HE WAS HANDING KAISER. POSITION PAPER ITSELF SHOWED SIGNS OF HASTY AND SLOPPY PREPARATION, SPEAKING AT ONE POINT OF NEED TO TAKE INTO ACCOUNT ARCTIC TEMPERATURES AT SITE OF ALUMINA PLANT ON BLACK SEA. HOWEVER, SOVIETS HAD APPARENTLY TAKEN SOME OF KAISER'S REQUIREMENTS INTO CONSIDERATION. RUSSOV, SOVIETS'S "HEAVY" IN PREVIOUS TALKS, WAS NOW WILLING TO ENTERTAIN CONCEPT OF DISCOUNT PRICING, ALTHOUGH HE TALKED IN TERMS OF 6-10 PERCENT DISCOUNT WHILE COMPANY ARGUED THAT 18-30 PERCENT REQUIRED FOR ADEQUATE PROFIT MARGIN.

5. EDGAR KAISER LEFT MOSCOW ENCOURAGED BY DISCUSSIONS. HE EXPLAINED THAT AT ONE POINT KAISER EXEC HAD REFERRED TO NIKOLAYEV-KRASNOYANSK PROJECT AS "PECHINEY PROJECT" BUT SUSHKOV QUICKLY CORRECTED HIM, SAYING, "NO, IT'S THE KAISER PROJECT." NO FURTHER EXCHANGES PRESENTLY SCHEDULED ON PROJECT'S COMMERCIAL ASPECTS, BUT KAISER TEAM AGREED TO PREPARE ANSWERS TO ADDITIONAL TECHNICAL QUESTIONS SOVIETS WILL SUPPLY.

6. COMMENT: ALTHOUGH WE SHARE KAISER'S POSITIVE APPRAISAL OF VISIT'S RESULTS, IT APPEARS SOVIETS MUST DEVOTE MORE HIGH-LEVEL ATTENTION TO NEGOTIATIONS BEFORE SUBSTANTIAL FURTHER PROGRESS CAN BE MADE. IN ASSISTING KAISER TO PREPARE FOR NEXT ROUND,
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OTHER POSTS' COMMENTS ON FOLLOWING QUESTIONS WOULD BE HELPFUL:

A. FOR EMBASSY PARIS: KAISER TEAM GAINED IMPRESSION FROM SUSHKOV REMARK QUOTE IN PARA 5 ABOVE THAT PECHINEY MAY BE DROPPING OUT OF COMPETITION. DOES EMBASSY HAVE ANY INFORMATION ON THIS POINT?

B. FOR EMBASSY CONAKRY: SOVIETS STILL TALKING IN TERMS OF GUINEAN BAUXITE FOR NIKOLAYEV-KRASNOYANSK PROJECT, BUT GUINEAN BAUXITE EXPORT TAX COULD CHANGE THIS PICTURE.

KAISER WOULD APPRECIATE ANY FURTHER INFORMATION YOU COULD DEVELOP ON APPLICATION OF TAX TO SOVIET OPERATION.

C. FOR USEC: RUSSOV TOLD KAISER TEAM HE NEGOTIATES DIRECTLY WITH BRANDEIS-GOLDSCHMIDT CARTEL FOR SALE OF ALUMINUM TO WESTERN EUROPE. AS KAISER IS NOT CARTEL MEMBER, ITS POSSIBLE SALES OF SOVIET ALUMINUM WOULD NOT BE CONTROLLED BY CARTEL BUT WOULD, OF COURSE, BE SUBJECT TO QUOTA RESTRICTIONS. COULD USEC PROVIDE RUN-DOWN ON APPLICABLE QR'S AT EC AND MEMBER STATE LEVELS? IN ADDITION, WE WOULD APPRECIATE ANY INFORMATION USEC CAN PROVIDE ON THE STATUS OF REPORTED PECHINEY APPLICATION TO EC COMMISSION FOR SPECIAL EXEMPTION TO EC QR WHICH WOULD ALLOW PECHINEY TO MARKET AS MUCH AS 2000,000 TONS OF SOVIET ALUMINUM ANNUALLY IN EC. WE UNDERSTOOD THAT THIS EXEMPTION WAS VITAL ELEMENT IF PECHINEY WERE TO MOVE AHEAD ON SOVIET PROJECT.

7. QUITE APART FROM REMAINING TECHNICAL AND COMMERICAL QUESTIONS, IT REMAINS TO BE SEEN WHETHER SOVIETS ARE IN FACT SERIOUS IN OFFERING NIKOLAYEV-KRASNOYARSK PROJECT TO KAISER. IT WOULD NOT BE SURPRISING IF SOVIETS WERE TO ATTEMPT TO USE NEGOTIATIONS WITH KAISER TO WRING ADDITIONAL CONCESSIONS OUT OF PECHINEY; IN FACT, IT WOULD BE SURPRISING WERE SOVIETS NOT TO ATTEMPT THIS PLOY.
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